

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



**FILED**  
9-26-16  
04:59 PM

Order Instituting Rulemaking to Enhance the Role of  
Demand Response in Meeting the State's Resource  
Planning Needs and Operational Requirements

R.13-09-011  
(Filed September 19, 2013)

**REPLY COMMENTS OF SAN DIEGO GAS AND ELECTRIC COMPANY  
(U902E) ON PROPOSED DECISION ADOPTING GUIDANCE FOR FUTURE  
DEMAND RESPONSE PORTFOLIOS AND MODIFYING DECISION 14-12-024**

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September 26, 2016

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**I. INTRODUCTION**

Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission ("CPUC" or "Commission"), San Diego Gas and Electric Company ("SDG&E") hereby submits Reply Comments on the Proposed Decision ("PD") Adopting Guidance for Future Demand Response Portfolios and Modifying Decision 14-12-024. Pursuant to subsection (d) of Rule 14.3, these Reply Comments focus on "misrepresentations of law, fact or condition of the record contained in the comments of other parties." Along these lines, it should be noted that a number of commenting parties included references to facts or proposals that are outside the current record and suffer from various inaccuracies that would result in faulty findings and conclusions. Clearly, it is inappropriate to introduce such issues at this stage (in PD comments) of the proceeding. It is also violates the due process rights of SDG&E and other parties to fully examine and challenge such belated assertions. In this Reply, SDG&E will address the main flaws in the comments of other parties, but given the page limitations will not be able to address each and every error. Accordingly, the fact that SDG&E has not addressed a particular issue in this Reply should not be interpreted as acquiescence on the part of SDG&E.

**II. TURN's AND ORA's SUPPORT OF PD's MANDATE THAT THE IOUs  
PROCURE LARGE AMOUNTS OF DR VIA FUTURE DRAMS IGNORES  
OVERARCHING CALIFORNIA POLICY CHANGES, RELEVANT  
LEGISLATION, AND THE WORK OF THE COMMISSION**

Without regard to the Commission's ongoing work in relation to Senate Bill ("SB") 350, and the Integrated Resource Planning ("IRP") OIR (R. 16-02-007), TURN and ORA have expressed support for the PD's separate, siloed mandate for greater procurement of DR through the DRAM process going forward. This is completely contrary to current regulatory and

legislative drivers that must be considered in this matter. Further, TURN and ORA have provided no substantive or legal basis for ignoring those drivers.

Specifically, TURN's comments support increasing the maximum cap for procuring MWs in DRAM.<sup>1</sup> While TURN argues that doing so is a means to increase competition, TURN offers no policy or legal reasons for a separate mandate in the first place. ORA is similarly supportive of the new DRAM mandate and goes on to say that "DRAM programs should be the primary means of procuring resource adequacy capacity from third-party DR supply sources."<sup>2</sup> This statement is without record support since the IOU's are currently in the first year of the pilot and no study has been done to evaluate the results proving why DRAM should be the primary means of procuring resource adequacy capacity from third-party DR supply sources. Moreover, ORA offers no policy arguments for why DR should have mandates with greater carve-outs separate from the Commission's work, pursuant to SB 350, to arrive at a truly integrated resource plan that takes into account resource needs before planning and also accounts for competing resources.

The Commission has opened Rulemaking 16-02-07, the Integrated Resource Planning OIR, in order to satisfy the requirements of SB 350, which requires, in part, that the Commission "identify a diverse and balanced portfolio of resources needed to ensure a reliable electricity supply that provides optimal integration of renewable energy in a cost-effective manner."<sup>3</sup> The scoping memo in that proceeding further states that the end result will be a process for each LSE to file an integrated resource plan on an annual basis that meets GHG goals, is cost effective, and consider a "least cost, best fit" criteria *in an integrated manner.*

SDG&E made the following comments below within that IRP rulemaking, which bear repeating here:

- *Provide general resource planning guidance that identifies resource needs and characteristics, and provides a cost-effectiveness benchmark* based upon the economy-wide cost of carbon, while leaving LSEs free to procure the lowest-cost resources to meet the needs identified in the IRP.

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<sup>1</sup> TURN Comments at p. 1.

<sup>2</sup> ORA Comments at p. 1.

<sup>3</sup> Rulemaking 16-02-007. Scoping Memo, May 25, 2016, page 3.

- ***Eliminate existing procurement silos** and holistically account for all resources, including Distributed Generation (“DG”), in the resource planning modeling and analysis.*
- *Consider not only what the State should do moving forward to meet policy goals, but also what the State must stop doing. The IRP must be developed with the realistic view that with declining load growth, **there is not room for continued increases in procurement through all the programs and processes that have historically existed at the Commission**, as well as through the new and more overarching measures that will be required to meet the policy goals established by SB 350. **The Commission should avoid adoption of new mandates for the foreseeable future while the IRP process is defined.***

Neither TURN nor ORA suggest how the current DRAM mandate in the PD would fit into the IRP. Given that neither TURN, ORA, nor any of the other parties in support of the DRAM mandate make substantive arguments for the mandate being justified apart from the work being done to satisfy SB 350, the Commission must reject the PD’s mandate for procuring all new supply DR through the DRAM as being contrary until further DRAM pilot evaluation is completed and the work of the IRP OIR is concluded.

### **III. TURN’S ASSERTION THAT THE MAXIMUM PROCUREMENT LIMIT SHOULD BE INCREASED TO 400MW FOR SDG&E IS NOT BASED ANY REASONABLE UNDERSTANDING OF SDG&E’S DR POTENTIAL.**

TURN’s comments/proposal contain technical and factual errors about SDG&E’s DR portfolio potential and would have severe consequences. TURN suggests a cap for SDG&E of 400 MW, which is five to eight times<sup>4</sup> what might be available in SDG&E’s service area at a capacity price comparable to the DR cost effectiveness benchmark adopted in OP 14. TURN’s suggestion is based on faulty analysis suggesting that SDGE’s share should be 20% of the statewide goal; as compared to the 10% load share ratio typically used to allocate program capacity in other proceedings.<sup>5</sup> Indeed, TURN’s own comments would suggest SDG&E’s share

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<sup>4</sup> SDG&E’s opening comments, page 5: 50-75 MW are available according to the Phase 1 DR Potential Study (<http://www.cpuc.ca.gov/general.aspx?id=10622>): 400 MW / 75 MW ~ 5 or 400 MW / 50 MW = 8

<sup>5</sup> The Commission has historically and reasonably allocated capacity to SDG&E for multiple programs (e.g., the Renewable Auction Mechanism program, the Renewable Market Adjusting Tariff, Bio-energy Feed-in-Tariff, Green Tariff Shared Renewables program) based on the ratio of SDG&E’s peak demand to the total peak demand of all electrical corporations within California, or relied on Section 399.20, which stands for the same allocation principle, or based on SDG&E’s percentage of total bundled sales in

of the DR goal should be 4.5%.<sup>6</sup> By imposing a DR procurement requirement that exceeds what is available in San Diego according the DR Potential Study, and not based on a correct allocation in relation to SDG&E's service territory size, the Commission would be signaling to bidders that SDG&E must take any and all bids. Consequently, it is expected that bidders will offer DR at the highest possible cost undermining the market the Commission seeks to create. That is, rather than price discipline, the Commission would be creating market power. TURN's proposal would facilitate this flawed outcome.

#### **IV. TURN AND ORA ERR IN THEIR ANALYSIS OF THE REASONS FOR ADJUSTING THE DR BUDGET CAPS**

TURN and ORA both argue that the steps they perceive the Commission taking to enable third party market growth in DR do not go far enough. But both make errors in their analysis. For example, in its discussion of enabling third party market development TURN states that “[f]irst, the Commission should limit funding of utility programs to the actual average spend in 2012-2016, not the budget for 2017. A limit based on the 2017 budget is practically no limit at all.”<sup>7</sup> SDG&E, however, has a different DR cost recovery mechanism than both PG&E and SCE. While PG&E and SCE propose budgets, collect those budget amounts in rates, and then spend, SDG&E is only authorized to collect in its rates the amount of the budget that is actually spent. This approach is designed to protect ratepayers, and SDG&E prefers this method as being prudent.

Although the balancing account approach may appear to indicate that SDG&E is underspending, it is important to understand how SDG&E's DR budgeting works. In particular, it should be noted that SDG&E's DR budgets must reflect funding amounts covering the maximum number of possible participants, the maximum number of events being called in the programs, and high performance levels paying out maximum amounts of incentive payments. Such a scenario is considered a 1 in 10 year DR season (a DR season that may take place only once every ten years, with hot summers). Nevertheless in order to be adequately prepared for

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comparison to the other IOUs. This percentage has not exceeded 10%. For examples, see: D.07-07-027 at 9, D.10-12-048 at 27-31, D.12-05-035 at 77-79, D.14-12-081 at 35-36, and D.15-01-051 at 181.

<sup>6</sup> Table 2 on page 8 of TURN's PD Comments shows 88 MW total for SDG&E and 1,954 MW total for the state ( $88/1954 = 4.5\%$ ).

<sup>7</sup> TURN Comment at p. 3.

such a season, SDG&E must set its DR budget accordingly. If the 1 in 10 year DR season does not materialize, nor the associated enrollment and event levels, it is a given that SDG&E will underspend its budget. Since SDG&E's cost recovery is tied to a balancing account, however, such SDG&E's ratepayers are protected because they will only be asked to pay for SDG&E's actual DR spend in any given year.

TURN ignores these facts when it argues that DR budgets should be capped at even lower levels so as to spur third party DR market development. ORA is similarly supportive of DR budget caps and is supportive of a prohibition of IOU bidding into the DRAM.<sup>8</sup> However, while it is true that the mandate to procure large amounts of DR through the future DRAMs will cause the IOUs to procure more DR from third parties, neither TURN nor ORA present any facts that would link a lower cap or the increased DRAM spending to the creation of a level playing field where DR can fairly compete against other resources (without DRAM carve outs). Moreover, false caps and forced procurement will not allow DR to develop organically, according to true and accurate price signals and accurate markets based on real value. Lastly, both TURN and ORA fail to make a compelling case that the lowering of IOU budgets will cause the IOUs to procure more DR that is "least cost, best fit." The IOUs' DR programs must still adhere to cost effectiveness protocols. Both TURN and ORA fail to appreciate these facts, and in doing so, miss the bigger issues in this PD. Accordingly, TURN's and ORA's Comments should be ignored as being neither accurate nor compelling reasons for capping the budgets at lower levels.

## **V. CONCLUSION**

SDG&E appreciates the opportunity to submit the forgoing Reply Comments.

Dated: September 26, 2016

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*/s/ John A. Pacheco*

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<sup>8</sup> ORA Comments at p. 3.